LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7109 **DATE PREPARED:** Jan 2, 2002
BILL NUMBER: SB 378 **BILL AMENDED:**

SUBJECT: EDGE credits.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill expands eligibility for the Economic Development for a Growing Economy (EDGE) Tax Credit by making the credit available for projects to retain existing jobs, as well as for projects to create jobs. The bill allows a credit for the retention of existing jobs only if the taxpayer: (1) is engaged in research and development, manufacturing, or business services; (2) pays an average compensation that is at least the average compensation paid within the county; and (3) plans to use the credit for facility improvements, for equipment and machinery upgrades, repairs, or retrofits, or for training or information system related expenses.

The bill also allows a credit for job creation only if the average wage paid by the taxpayer exceeds: (1) a percentage, determined by the EDGE Board, of the average wage paid within the county; or (2) a minimum livable wage determined for the county by the Board.

Effective Date: July 1, 2002.

Explanation of State Expenditures: This bill may increase the amount of EDGE credits awarded annually as a greater number of businesses would be eligible for the credit. Under current statute, only projects creating new jobs are eligible for EDGE credits. The bill would extend EDGE credit eligibility to businesses considering projects that would retain existing jobs in Indiana. In addition, the change to the average wage factor for *job creation* projects also could potentially increase EDGE credit applications and awards. Broader eligibility due to these provisions may expand the applicant pool, creating additional administrative demands on the Indiana Department of Commerce (IDOC) which provides administrative support to the EDGE Board. The IDOC should be able to meet these demands given its current budget and resources. The December 3, 2001, state staffing table indicates that the IDOC has 18 vacant positions.

Under current statute, the State Budget Agency (SBA) is also required to certify that EDGE credit awards will provide an overall positive fiscal impact to the state. An expanded applicant pool may increase the number of EDGE studies performed by the SBA, however, the impact is not expected to be significant.

Explanation of State Revenues: Under current statute, the EDGE Program is designed to provide a revenue-neutral incentive for businesses to create new investment and jobs in Indiana. Businesses receive credits equal to the individual income taxes withheld for employees filling the newly created positions. Since revenue from these employees would not have been collected in the absence of the new development, the state does not incur a net loss by redistributing the incremental income tax revenue as tax credits to businesses.

The bill would extend eligibility for EDGE credits to businesses that, in the face of more profitable alternative project sites, elect to maintain their current employment levels in Indiana. To be eligible for EDGE credits relating to job retention, a business would have to be involved in research and development, manufacturing, or provision of business services. In addition, the business would have to use the EDGE credits for investment in facility improvements or equipment and machinery upgrades, repairs, or retrofits; or for training or information system expenses. Under this scenario, EDGE credits granted to a business for job retention purposes would be based on the individual income taxes withheld for employees whose jobs are being retained (although the EDGE Board would have final approval of the actual amount). No new revenue would be realized since no new jobs would be created. As a result, EDGE credits would be paid from existing revenues, resulting in a net loss to the state equal to the amount of EDGE credits granted to businesses for job retention. However, if a business were to select a more profitable alternative project site and move out of Indiana, there could be an even greater loss of revenue from the reduction in individual (employee's) and corporate taxes.

EDGE credits may be taken against a taxpayer's Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, Bank Tax, Savings and Loan Association Tax, Insurance Premium Tax, or Financial Institutions Tax liabilities. The duration of the credit may not exceed ten taxable years. In 2000, the EDGE Board approved approximately $63 M in new credits (to be used over several years) for 16 projects. The projects are expected to create 6,382 new jobs with an annual payroll of approximately $308.8 M. From 1994 to 2000, EDGE credits have been approved for 72 projects. During those years, approximately $46.2 M in EDGE credits were made available, with the total amount of credits certified so far equal to about $25.1 M. Approximately $21.9 M in EDGE credits are available for approved projects in tax year 2001.

Revenue from individual and corporate income taxes is distributed to the state General Fund. A percentage of corporate Adjusted Gross Income Tax revenue is also distributed to the Property Tax Replacement Fund. Since the bill is effective July 1, 2002, it may impact revenue collections beginning in FY 2003.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Department of Commerce, State Budget Agency.

Local Agencies Affected:

Information Sources: Indiana Department of Commerce, 2000 EDGE Annual Report, March 30, 2001.